



“Eicher Motors Limited’s Conference Call on
Demonetization Impact Hosted by Edelweiss Securities
Limited”

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Moderator: Ladies and gentlemen, good day and welcome to the Eicher Motor's conference call on demonetization impact hosted by Edelweiss Securities Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Chirag Shah from Edelweiss Securities. Thank you and over to you, sir.

Chirag Shah: Good evening everyone and thanks for joining in for the call today. We thank the management for giving us the opportunity to host the call. From Eicher Motors we have with us today Mr. Lalit Malik – Chief Financial Officer and Mr. Anuj Bansal – Head of Financial Planning and Analysis. I will now handover the floor to Mr. Lalit Malik for opening comments and then we can start with Q&A. Over to you, sir.

Lalit Malik: Thank you everybody for joining this limited purpose call. I do not think in my 6.5 years that I have been here we have ever had a call between our two board meetings. So this is the first time that essentially there has been so many calls, queries, clarifications to both Anuj and me and also to Siddharth actually. We just thought of and backed up many broker notes so due to respect to all the notes that we have seen or heard or will be hearing in the future we thought of coming out and giving you our company level assessment of the impact of demonetization on the company. And I am going to cover both Royal Enfield as well as VECV. We just found out the combined numbers of Eicher Motors both Royal Enfield as well as Volvo Eicher's just about an hour back or so.

So I will just go through some of these numbers again and provide some commentary over the trends that we are seeing in terms of leaving the case as lag indicators at some found around assessment that we have had through our own processes and channels and then we can take a few questions if there are any.

So last month November 2016 Royal Enfield had a total sales volume of 57,313. Now this is up 41% over same month last year when the volume was 40,769 bearing in mind November of last year was also a Diwali month. So number was slightly in our case elevated in terms of the November 2015 sales but we still had a growth of 41% same time same month last year. But comparing month on month October 2016 to November 2016, and in October 2016 Royal Enfield had a sales volume of 59,127 in October. In November 2016 like I said we had a total sale of almost 57,313. So a dip of about as a wholesale sales there were a dip of about 3% which is in my head is very clearly accounted for the fact that we had two less days of working in November as opposed to October.

Coming to the Volvo Eicher numbers, there has been some impact and we will talk more about that. Between November of this year and November of last year. So in L&D I will take the total numbers over here. Overall in commercial vehicles including Eicher light duty trucks, heavy duty trucks, buses as well as Volvo trucks we are at total volume this month last this

month as in November 2016 of 3,176. Same month last year the volume was 3,639. So there is a degrowth of 13%. As opposed to October 2016 which is on comparing with the November 2016 so November 2016 the volume like I said was 3,176 and in October 2016 it was 4,560. So clearly there is an impact of almost one-third dip in the sales volumes.

Again partly explained by Diwali but largely explained by the demonetization feedback which this part of our business has set. So that is almost on the volume side. Overall for the all the indicators that we tracked internally we have seen a dip of about 8% in the walk-ins in the month of November as opposed to an average of September and October this year. Now while your avenue is down because in October things tending to be a bit higher because that was the festival month. So we have tried to neutralize income trends by adding in the month of September and comparing the average of September and October 2016 versus November 2016. The walk-ins declined by about 8%. The bookings have also declined by around 8%. I have to also say that there was a much sharper slightly sharper decline in the booking in the 5 to 6 days after the demonetization announcement happened but on a run rate basis as we close the month yesterday the booking trend has kind of is back on to the normal.

It is needless to say but I still going to emphasize that the booking for the month of November were still higher than the production that we had. So we still added a significant number to our order book even last month.

On cancellation stock postponement we have seen no trends versus which are noticeable. So there is no change on cancelation and postponement. One of the point I would like to emphasize over here is that in the terms of trades that does a free term we had with our channel essentially are D level distributors. There have been no change whatsoever. So like in the past we have not offered them any credit to sustain the sales volume or to sustain momentum. This all this is happened organically like it was happened in the last many, many years.

We had not offered and we have not allowed the D level distributors to offer any discounts or incentives to their customers. There have been change in the composition in the way our bikes have been purchased. So in the past the trend has been that almost 60% of our motorcycles were purchased by people who are in the salary class. And about 40% which were more of in the business side. Now we can have many cuts underneath **(Inaudible 7:08)** but at a macro level it was salaried versus SME and there are pick for 60:40. That trend has also not changed.

The financing part which was around 35% to 40% if you look at the past historical trends that has gone up to almost 42% to 43%. So there have been an improvement of financing. The banking channel has grown significantly. So if you are using cheques or demand drafts or NEFT and RTGS all that put together it used to be less than 25% in the past. Now for this month it was more than 50%. So therefore, overall the cash component in terms of the retail sales has gone down from about 40% odd to about 10%.

One of the noteworthy point that we picked up was that generally speaking the banking channels are pretty sluggish. So for example the time it takes to clear a cheque when a

customer gives a cheque to a dealer typically it will be done in couple of days but now it is taking more than 6, 7 days and dealers have kind of put down some of the detailed on ground channel with this also. But hopefully that position should improve in the coming months and we should be back to a normal cheque processing timeline.

So apart from this this particular thing which has hurt inner capsules a little bit and therefore they are not able to give us full money against the bikes to be sold to them. There is a bit of a decline visible here as well. That is all on the Royal Enfield side from our side. On the VECV side the feedback from the ground is that the fleet owners are stretched and fleet owners have stretched because the business for the month of November has come down to some extent. They are feeling a cash book crunch. So while they feel of a near future need to purchase a truck they are not sure how they will be able to service it for the next few months. So till from a CD operator's standpoint to this clarity as to when he will be able to correctly service or properly service the loan I think there will be some amount of postponement or some amount of distress that we see in the commercial vehicle sales.

But the banking support to the commercial vehicles channel is very strong and they have not shied away from offering certain benefits to purchase the truck at this point of time because the commercial vehicle operators is slightly hesitant. So there is some amount of cash crunch happening in the street level which is adversely affecting the sales. And I think this is not a VECV problem because of the industry level problem has I am given to understand.

So those are the points I had to mention in terms of the volumes and some of the trends that we have seen. I will hand it over to Chirag or the operator now to see whether there are any questions we like to answer.

Moderator: Sure. Thank you very much. We will now begin the question-and-answer session.

We have the first question from the line of Ashish Nigam from Axis Capital. Please go ahead.

Ashish Nigam: You had mentioned that the cash component of RA purchases is down from 40% to 10%. So could you break up this earlier 40% in to what was hard currency notes and what was cheques or credit cards? I am assuming when you mean cash that is everything that is non-financed, is that right?

Lalit Malik: No, it means non-financed and non-banking instruments.

Ashish Nigam: Okay so 40% was hard currency notes?

Lalit Malik: Yeah.

Ashish Nigam: Okay fine, so that is down to 10%.

Moderator: Thank you. The next question is from the line of Sonal Gupta from UBS Securities. Please go ahead.

- Sonal Gupta:** Sir, just wanted to understand on this like you said you have not changed your terms with the channel but at the same time you mentioned that dealers are having a bit of a cash crunch and they are not able to pay you fully. So how do we reconcile the two?
- Lalit Malik:** No, that was the perspective from a booking standpoint so there has been a few it is not pan India it is a few parts of the country and NCR included where the dealers have spoken over the fact that while we have got the cheques from the customer and we have bank it we have not got the credit for the same. So how do we pass on the credit to you because we have not got it. So the credit to us is equal to the demand for the motorcycles. So that is what I meant.
- Sonal Gupta:** Right but you are only supplying on the back of whatever getting money from the dealers? You are not getting any money?
- Lalit Malik:** No, unless we get the full money we are not I mean like in the past zero credit was any motorcycle sales.
- Sonal Gupta:** And just in terms of the last week or so obviously the immediate impact was pretty sharp but how have things trended over the last week or so if you can just talk about that?
- Lalit Malik:** So I think this is the only data that we **(Inaudible) 13.23** in the five, six days after the announcement was on the booking side and on the working side. Frankly speaking last week if you do a run it basis it is kind of pretty much back to the normal. So while I am reporting an overall decline of booking for the month by 8% at this point of time just last week or last few days that is the movement.
- Moderator:** Thank you. The next question is from the line of Aryn Pirani from Deutsche Bank. Please go ahead.
- Aryn Pirani:** My question was again just on the cash component. So even when people were paying in currency notes since this was a purchase of more than Rs. 1 lakh they would have been furnishing a pan card, right or is it that not a requirement?
- Lalit Malik:** The limit is Rs. 2 lakhs.
- Aryn Pirani:** And just on the financing bit just to clarify. So it was 35% to 40% earlier you mentioned which has now increased to?
- Lalit Malik:** See it was about 35% now it is about 42%, 43%.
- Aryn Pirani:** And while you mentioned that there was around 8% drop in bookings as on November as a whole. Any differences that you have seen between your top 10 cities and the newer tier 2, tier 3 city dealerships or is it broadly similar?
- Lalit Malik:** Nothing, I mean we do closely monitor out at least half of the distribution on almost a weekly basis to be honest with you. But not similar this issue we just want to monitor it very closely in

terms of same store bookings sales vintage wise. We have not seen any trend whatsoever just in to.....

Moderator: Thank you. The next question is from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: I had two questions. Firstly on the bookings front. What is the kind of growth we are seeing in bookings if we take like last week or last month if you could give some trend?

Lalit Malik: That is I said for the month I am reporting a decline of 8% in November over an average of September, October this year. But if you look at the last few days then like I said the booking that too its normal run rate.

Kapil Singh: Sir, if we compare it to last year what is the kind of growth we are seeing?

Lalit Malik: So last year was much higher than that. So I am not even comparing last year. Last year I think we had about 45%, 46%.

Kapil Singh: Okay so I mean inquiries and footfalls etc. are pretty much tracking that kind of run rate?

Lalit Malik: In the last week kind of all stored back.

Kapil Singh: And secondly, what are the check on VCVs? Are the retails in line with this somewhere or there has been some stocking up as well?

Lalit Malik: They were largely in line with this number because there were lot of orders being processed even before this happened. And they are reminded to the month after Diwali. So there has to be a bit of a slump after the Diwali time but right now it is under some stress and the stress continues into say the next few days of December then we will take corrective action in terms of making those stocks at a reasonable level. So if we have to cut down production we will do that also.

Kapil Singh: Because there were lot of expectations of pre-buy so do you think that there could be some risk to that given that there is lot of uncertainties?

Lalit Malik: No, so whatever is the production we will have to take into account immediate offtake versus the offtake we do expect in the next quarter on pre-buying. Pre-buying I do not think happen. A lot of pre-buying may not happen in December.

Kapil Singh: But you are still with the gearing up for it in the last quarter?

Lalit Malik: Absolutely.

Moderator: Thank you. The next question is from the line of Pramod Amthe from CIMB. Please go ahead.

- Pramod Amthe:** Two questions. One, how are your inventory and retails in both RE and CV business? And have you done any financial subvention in both the businesses?
- Lalit Malik:** Like I said we have not done any financial offers to the channel or the customers. And we have not in the path, we have not the....
- Pramod Amthe:** So for both RE and CVs?
- Lalit Malik:** Both RE and CV. Nothing special this month like we are not in the past. On the stock levels like I said in REO stock levels basically goods and transit only. So there is no stock piling which is happening at the dealer's end. And that is consistent with the past. So I have nothing to report on stock level going up or down because that is absolutely in line with the past.
- Pramod Amthe:** And just to clarify when you give a breakdown of RE financing and cash payment so you are basically saying the banking channels have moved up from almost 25% purchases earlier to almost a 40% in spite of being sluggish?
- Lalit Malik:** Correct because the banking channels I am talking about credit cards, debit cards, cheques, drafts, NEP and all those stuff. The only sluggishness is with cheques processing.
- Moderator:** Thank you. The next question is from the line of Raghu Nandan from Quant Capital. Please go ahead.
- Raghu Nandan:** My question sir, on VECV. What has been the impact of this cash crunch on the UCV market where like it is driven by cash transactions how much in your assessment would the transactional volumes have been affected or by how much is UCV prices have dropped?
- Lalit Malik:** It is early days to give definitive answer to this. Is there an effect, yes, but how large is the effect, how large is the impact on the price and all those stuff I think we will have a better hang of it this month. It has been very early days.
- Raghu Nandan:** And sir, like in the ECV how would be the dealer's inventory and what kind of performance do you expect in December? Would it again be a negative?
- Lalit Malik:** See as usual norms for the dealers and the company it is 10 to 20 days stock with us and 50 to 20 days stock with the dealers that has been there for the last many, many years. So if you find that tradeline to be disturbed then like I said we will take corrective actions.
- Raghu Nandan:** And any expectations how you see December panning out?
- Lalit Malik:** That we will discuss in our February earning call.
- Raghu Nandan:** Just one question.
- Lalit Malik:** I am not promising more calls on this note next month also.

- Raghu Nandan:** Do you see any delay in disbursements or tightening of credit norms by financiers in the CV side?
- Lalit Malik:** No, we have not seen that. We are not seeing that at all. In fact we are very eager to work with the OEMs as well as freight owners.
- Moderator:** Thank you. The next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.
- Rajesh Kothari:** I just wanted to check that in your overall plan for RE business particularly next year in terms of your capacity increase any change in your plan or any thought process on that?
- Lalit Malik:** Capacity for next year?
- Rajesh Kothari:** Yeah.
- Lalit Malik:** No, our planning cycle is going to at this point in time and like I said after it is done and all of that we will come out with capacity numbers which we do declare every year after the planning cycle is completed in March. Will this affect production planning and all that stuff it is early days but my general gut sense is, no.
- Rajesh Kothari:** And do you think post this demonetization any down trading by the consumer from the industry perspective?
- Lalit Malik:** It is early days, it is very early days. This is just about three weeks only. One week was the first bit of an all in shock and now the business is trying to leap back to normalcy. So not seeing anything that I can comment on.
- Moderator:** Thank you. The next question is from the line of Jatin Chawla from Credit Suisse. Please go ahead.
- Jatin Chawla:** Sir, the question is on the trend side. Have you seen any difference in different regions? So I think some OEMs have mentioned that South and West are doing better and North and East are little bit slower. Are you seeing a similar trend or all regions are similar?
- Lalit Malik:** Again we are not seen any trend definitely not on the Royal Enfield side of things. So on the Volvo side of things it also depends on the strength of your distribution. So one we have seen in VCVR we are a little over intakes in terms of our distribution strength and the history that we have in South and West. And North is a bit of a one set behind in terms of distribution reach also. So I am putting any trends on this distribution layout that we have and not necessarily on account of any demonetization in our case at least.
- Moderator:** Thank you. The next question is from the line of Melrick Susun from CLSA. Please go ahead.

- Melrick Susun:** I wanted to understand when you say cash component has gone down from 40% to 10% if you were to give some kind of breakdown of how much of this is salaried class and how much of this is SME class I mean which segment is kind of still more cash component and which one is lesser?
- Lalit Malik:** It is only down to 10% so really does not matter which is more or less but one that has moved most is SME class.
- Moderator:** Thank you. The next question is from the line of Priya Ranjan from Systematix Shares. Please go ahead.
- Priya Ranjan:** So can we just think of what kind of funnel of customers we have where we can actually ask them if somebody is postponing purchases for say for a month or so. So in terms of order book to be placed for a three, four month of order book size overall?
- Lalit Malik:** Yes, there has change one bits like I said. So the whole funnel from walk in to the actual sale like I said is overall declined by about 8% but the last few days it is kind of come back.
- Priya Ranjan:** But do we have to go for like earlier days we never used to go to the customers that if your vehicle is ready if you want to take the delivery right now so can we take is this happening also?
- Lalit Malik:** Your question is not very clear. So mean if the vehicle is ready for the delivery and the customer does not want to take it this month and wants to postpone it, that is what you were asking?
- Priya Ranjan:** Yeah, so if somebody is wants to postpone it say for even his delivery was ready for November or December but he wants to do it January but the customer which was supposed to be delivered in January wants we can go to customer of January customer and say that can we deliver it right now is that?
- Lalit Malik:** No, look our very, very clear question this is not about just last month. I am generally saying is that we have to deliver the bike to the customer on the date of the week that he or she was promised. So we are not going to oppose if the customer had asked are you okay with taking the bikes next month or so even if the request is there.
- Priya Ranjan:** Because what my sense is I mean in some of the markets probably the UP and Punjab and all these regions the waiting period was any which way quite low compared to some of the large metro cities and all. So in those cases the delivery is still happening as per schedule? I mean these markets were also pretty high in terms of the cash market?
- Lalit Malik:** So your question is still not very clear. If the guy is walking in and he wants to move to next month, which is fine. If the market is the waiting period is over we do not even have to oppose the next customer's questioning into changes lined because in any case the waiting was not stretched till that month. So I don't understand where the problem is.

- Priya Ranjan:** So there is no problem as such but the issue is here can we deliver it I mean if not going to the knot I means instead of delivering our vehicle from Chennai plant to North we can divert some of the delivery to say North, West or the Southern region where the waiting period were little higher?
- Lalit Malik:** So let me speculative because we are not seeing that postponement happened. Like I said the cancellation and postponement we have not seen that. So if we see that then of course there could be some correctives that we might have to kind of think about. We are not seeing that those postponements happening. In low whatever state wise if you want to make a split or product why do you want a split we have not seen any of that postponement happened.
- Moderator:** Thank you. Due to time constraints, we will be able to take one last question. The last question is from the line of Nakul Manaktala from Samaira Investments. Please go ahead.
- Nakul Manaktala:** So two questions. So first, how your contracts with your components in the manufacture structure? So tomorrow if you were to kind of reduce your production targets how that trickled down to them and how really are your contracts kind of structured to kind of handle that production target reduction?
- Lalit Malik:** The supply contracts with the suppliers are based on schedules. And those change every month. So that is what happens.
- Nakul Manaktala:** So if you were to change your production target then?
- Lalit Malik:** Because sales the share of business is 100% or 40% and so on and so forth due to various suppliers and then both suppliers and the company work on schedules for each month.
- Nakul Manaktala:** And in terms of your spare parts how is that kind of structured and given GST do you see any change in your spare parts revenue?
- Lalit Malik:** On demonetization effect no change whatsoever. In fact, it has gone up. On GST it is still four months away. So there is no pre-GST impact on us right now.
- Nakul Manaktala:** But like with GST do you think the sales tax to go away and then more and more be going to purchase your original parts versus than local market and purchasing these in the local unorganized like that?
- Lalit Malik:** After the GST is introduce and then we will start seeing trend. And this is not a GST call in any case.
- Nakul Manaktala:** Okay, thank you so much.
- Lalit Malik:** Thank you very much. I hope I was able to answer most if not all of your queries. I will talk to you next time. Thank you very much.

Moderator: Thank you very much. With that we conclude this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.